



India is one of the lowest power consuming countries in the world (see graph on the LHS). As the economy grows people will prosper and level of industrialisation and urbanisation will increase. This will lead to higher demand for electricity. This, in conjunction with the Demand-Supply gap, puts the Power Sector in a sweet spot. Companies which plan to create power generation capacities in the coming years are likely to benefit. Despite being a utility (capped RoE), we expect the sector to provide excellent growth going ahead.

The energy deficit in India is a consequence of slow progress in the development of additional energy capacity. The Indian economy is based on planning through successive Five-Year Plans, that set out targets for economic development in various sectors, including power sector. In the implementation of the last three Five-Year Plans (the Eighth, Ninth, and Tenth Five-Year Plans, covering fiscal years 1992 to 2006), less than 50% of the targeted additional energy capacity was added. India added an average of approximately 20,000 MW to its energy capacity in each of the Ninth and Tenth Five-Year Plan periods (fiscal years 1997 to 2001 and 2002 to 2006).

	Assumed Growth	GDP	Electricity Generation Required (BU)	Peak Demand (GW)	Installed Capacity Required (GW)	Capacity Addition Required* (GW)
By FY 2012	8.00%		1097	158	220	85
	9.00%		1167	168	233	98
By FY 2017	8.00%		1524	226	306	171
	9.00%		1687	250	337	202
By FY2022	8.00%		2118	323	425	290
	9.00%		2438	372	488	353

*Based of existing installed capacity of 135 GW in India

Projected Demand of Electricity (Source: Integrated Energy Policy Report, Expert committee on Power, Aug 2006)

Investment Positives

✓ Strong Portfolio on completion of projects

The coal-fired thermal power projects proposed to be developed by the Company in Maharashtra and Chhattisgarh are expected to have a combined installed capacity of 6,615 MW. The Company has also signed MoUs for developing coal-fired thermal power projects aggregating to 3,960 MW with the State Governments of Jharkhand and Madhya Pradesh. The Company has also signed a MoU with the Government of Arunachal Pradesh for developing four hydro-power projects of an aggregate capacity of 167 MW. The Company plans to sell its power to state owned and private distribution companies and industrial consumers. The Company intends to maintain an appropriate mix of off-take arrangements, including long term PPAs to provide a level of committed revenues and short term PPAs to realise higher tariff rates.

✓ Fuel supply visibility to keep operational costs in check

One of the key factors for profitability of a power plant is the availability of high quality and cost efficient fuel in adequate amounts throughout the lifetime of a power plant. For this, the company has been granted coal linkages by the Ministry of Coal for its Amravati Phase I Power Project and the Nashik Power Project. The company has also received letters of assurances for supply of coal from Western Coalfields Limited and South Eastern Coalfields Limited for the Amravati Phase I Power Project and from Mahanadi Coalfields Limited and Western Coalfields Limited for the Nashik Power Plant. Additionally, the Ministry of Coal has allocated two captive coal mines in Chhattisgarh for the Bhayathan Power Project. Thus assured supply of fuel at cost low, with less exposure to fuel price volatility, will enable the Company to expedite its projects in terms of achieving financial closure under its financing arrangements. Fuel security also enables the Company to procure equipment with necessary specifications for its projects which is dependant on the quality of coal to be used for the project.



✓ **Long term PPAs provide revenue visibility going forward**

The Company has entered into a long term PPA (Power Purchase Agreement) with TPTCL (Tata Power Trading Co. Ltd.) for sale of up to 1000 MW of power proposed to be generated at the Amravati Phase I Power Project. The Company has also entered into a longterm PPA with the Chhattisgarh State Electricity Board for the sale of 65% of power proposed to be generated by the Bhaiyathan Power Project aggregating to approximately 858 MW of electricity. Both these PPAs are for a term of 25 years from the date of commencement of commercial operation of the respective power projects. The Company has also executed a MoU with MSEDCL wherein Company has agreed to supply 1,000 MW of electricity generated from the Amravati Phase I Power Project.

✓ **Backing of strong promoters and shareholders**

The company is a subsidiary of IBREL (Indiabulls Real Estate Pvt. Ltd.) and a part of the Indiabulls Group. One of the company's key strengths is the affiliation and its relationship with the Indiabulls Group and the strong brand equity generated from the "Indiabulls" brand name. The Company has also brought in strong strategic foreign investors such as FIM Limited and LNM India Internet Ventures Limited (owned by Laxmi Mittal).

Investment Negatives

✗ **No operating history, so it is difficult to estimate its future performance.**

The Company currently has no power projects in operation or other revenue generating operations, and it has no significant operating history from which its business, future prospects and viability can be evaluated. The development of power projects involves various risks, including among others, execution risk, regulatory risk, construction risk, financing risk and the risk that these projects may prove to be unprofitable. Any inability of the Company to effectively develop and operate its power projects could adversely affect its business prospects, financial condition and results of operation.

✗ **Inability to commence operations as expected is a key risk**

The first power project of Indiabulls Power - Amaravati Phase 1 is scheduled to commence in September 2012. This is still nearly three years away. Power projects have long gestation periods (time take to generate positive cash flow) . It will take the company a long time before it generates free cash flows.

✗ **High Capital Outlay funded primarily by debt - thus interest rate risk**

Building a greenfield power project requires huge capital outlay. The company estimates that it would require Rs.31,052.4 crore for the projects under development. Delay in procuring financing or licensing will impact the project closure and ultimately profitability. Approximately 25% of the project is estimated to be financed from equity and the rest from debt. So, the company will have a high gearing ratio. This makes the company susceptible to losses in profitability in a tight fiscal policy environment on account of higher debt servicing costs.

Valuation & Recommendation

The company was set up just two years ago and has no operating history. All its power plant are under various stages of completion. The profits of the company in the last two years are on account of non-core activities. So, projecting cash flows would be a risky proposition considering qualitative treatment of many variables involved. We can however look at a peer-set valuation of the company given in the table below.

Company	CMP (Rs.)	M Cap (Rs. Crore)	BV / Share (Rs.)	P / BV (x)	Capacity* (MW)	M Cap / MW (Rs./MW)
NTPC	209.00	1,73,979.30	71.55	2.95	48,000	3.62
Reliance Power	161.00	38,924.36	57.16	2.84	12,500	3.11
Tata Power	1,295.05	29,095.41	389.36	3.37	8,035	3.62
Adani Power Ltd.	100.80	21931.15	12.05	8.35	6,600	3.32
Indiabulls Power	40 - 45**	7920.75 - 8910.84	-	-	Nil	-

* Installed Capacity

** Offer price

If we assume a capacity of 6600 MW for Indiabulls Power the M Cap / MW would come out to be 1.20 - 1.35 at either of the price bands. However, other players have capacities in operation while and are expected to have significantly higher capacities by the time Indiabulls starts its operations. Hence the discount is justified considering the size of operations and schedule of cash flow generation. Considering the potential and scalability of operations, the issue can be subscribed to by an investor willing to hold it for 3 or more years to fully realise and profit from the business potential of the company.



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